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**FISCAL IMPACT STATEMENT**

**LS 7847**

**BILL NUMBER:** HB 1729

**NOTE PREPARED:** Jan 13, 2007

**BILL AMENDED:**

**SUBJECT:** Various Economic Development Matters.

**FIRST AUTHOR:** Rep. Budak

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** *Review of Economic Development Incentives:* The bill requires the Indiana Economic Development Corporation (IEDC) to biennially review state and local economic development incentives to determine whether: (1) small businesses are eligible for the incentives; (2) small businesses can easily access and participate in the incentives; and (3) any incentives should be modified to make small businesses eligible for the incentives. It requires the IEDC to biennially submit a report to the Legislative Council. It requires the IEDC to conduct at least one public hearing to receive comments from owners and employees of small businesses. It also authorizes the IEDC to: (1) solicit information and comments from small business owners and other individuals and entities; and (2) pay travel expenses, per diem, and expert witness fees.

*Unemployment Insurance for New Businesses:* The bill reduces from 2.7% to 1% new employer contribution rates to the Unemployment Compensation System when the Unemployment Insurance Benefit Fund reaches a specified reserve amount.

*Small Business Export Assistance:* The bill appropriates \$1,000,000 to the IEDC from the state General Fund to provide technical and financial assistance to small businesses that engage in global commerce.

*Small Business Development Center:* The bill appropriates \$1,000,000 to the IEDC from the state General Fund to assist the small business development center in the operation of the small business development center network.

**Effective Date:** Upon passage; July 1, 2007.

**Explanation of State Expenditures:** *Small Business Export Assistance:* The bill makes an appropriation of \$1.0 M from the state General Fund to the Indiana Economic Development Corporation (IEDC) between July 1, 2007, and

June 30, 2009. The purpose of the appropriation is to provide technical and financial assistance to “small businesses” that engage in global commerce. The bill defines a “small business” as any person, firm, corporation, limited liability company, partnership, or association that is independently owned and operated, employs 100 or fewer full-time employees, and has gross annual receipts of \$5.0 M or less. A small business may be actively engaged in Indiana or have its principal office in Indiana.

*Small Business Development Center:* The bill appropriates \$1.0 M from the state General Fund for FY 2008 and FY 2009 to the Indiana Economic Development Corporation (IEDC) for operation of the Indiana Small Business Development Center (SBDC) Network. The SBDC provides training, counseling, and technical assistance to small businesses meeting criteria of the U.S. Small Business Administration (SBA). The SBDC did not receive an appropriation in FY 2006 or FY 2007. Funding for the SBDC has been comprised primarily of grants from the SBA. Federal grant funds received by the SBDC totaled \$1,285,773 in FY 2006, and has totaled \$1,009,862 so far in FY 2007 (as of December 15, 2006).

The bill prohibits the IEDC from using any of the appropriation for administrative cost. The January 1, 2007, state staffing table indicates that the SBDC consists of three full-time positions, one of which is currently vacant. The January 1, 2007, state vacant position report indicates that the IEDC has 35 vacant full-time positions, including the vacant position in the SBDC.

*Review of Economic Development Incentives* The Indiana Economic Development Corporation (IEDC) could potentially incur additional administrative cost to implement these new research requirements. However, the precise fiscal impact of this provision is indeterminable.

The funds and resources that may be required for the IEDC to implement the new research requirements could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. The state vacant position report for January 1, 2007, indicates the IEDC has 35 vacant full-time positions.

*Background Information:* The bill requires the IEDC to conduct a biennial review of all state and local economic development incentives and determine the following:

- (1) Whether small businesses are eligible for the incentives.
- (2) Whether small businesses can easily access and participate in the incentives for which they are eligible.
- (3) Whether any incentives should be modified to make some or all small businesses eligible for the incentives.

The bill requires the IEDC to submit a report on the review of state and local economic development incentives to the Governor and the Legislative Council before November 1, 2007, and November 1<sup>st</sup> of every odd-numbered year thereafter. Relative to the review requirement in (3) above, the bill requires that the IEDC state in the report the reasons why incentives should be modified or should not be modified to make small businesses eligible for the incentives. The bill also requires the report to be submitted to the Legislative Council in electronic format.

The bill requires the IEDC to conduct at least one public hearing to receive comments on the review from small business owners and employees. The bill permits the IEDC to solicit information and comments from small business owners and other private individuals and entities, tax policy experts, and other appropriate sources to carry out the review. It also authorizes the IEDC to pay any travel expenses, per diem, and expert witness fees for such individuals

or entities.

**Explanation of State Revenues:** *Unemployment Insurance for New Businesses:* The bill would reduce revenue into the Unemployment Insurance Benefit Fund if the ratio of the Fund's balance divided by the total previous year's payroll of employers is greater than 1%. Currently, the ratio is less than 1% and has been decreasing over the last five years. It is unknown when the ratio might exceed 1%. When the new employer rate is decreased from 2.7% to 1% the reduction in fund revenue would be about \$16 M annually.

The fund balance on June 30, 2006, was about \$583.7 M. The balance would have to increase to about \$778 M before new employer contributions could be reduced from 2.7% to 1%.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Workforce Development; Indiana Economic Development Corporation; Indiana Small Business Development Center.

**Local Agencies Affected:**

**Information Sources:** Tom Skidmore, Indiana Economic Development Corporation, (317) 232-8898.

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